

**MCCORMICK HEALTH CARE CENTER**

**MCCORMICK, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1998  
AC# 3-MHC-F7**

**REPORT ON CONTRACT**

**FOR**

**PURCHASE OF NURSING CARE SERVICES**

**WITH**

**STATE OF SOUTH CAROLINA**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 24, 1999

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with McCormick Health Care Center, for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended June 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by McCormick Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and McCormick Health Care Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
June 24, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**MCCORMICK HEALTH CARE CENTER**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1998  
AC# 3-MHC-F7

	<u>10/01/98- 11/30/98</u>	<u>Beginning 12/01/98</u>
Interim reimbursement rate (1)	\$91.12	\$91.87
Adjusted reimbursement rate	<u>88.11</u>	<u>88.86</u>
Decrease in reimbursement rate	\$ <u><u>3.01</u></u>	\$ <u><u>3.01</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

**MCCORMICK HEALTH CARE CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1998 Through November 30, 1998  
AC# 3-MHC-F7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.89	\$43.39	
Dietary		9.41	9.93	
Laundry/Housekeeping/Maint.		<u>6.73</u>	<u>8.11</u>	
Subtotal	<u>\$4.30</u>	57.03	61.43	\$57.03
Administration & Med. Rec.	<u>\$1.80</u>	<u>9.10</u>	<u>10.90</u>	<u>9.10</u>
Subtotal		66.13	<u>\$72.33</u>	66.13
<u>Costs Not Subject to Standards:</u>				
Utilities		2.42		2.42
Special Services		1.47		1.47
Medical Supplies & Oxy.		5.18		5.18
Taxes and Insurance		.44		.44
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$75.64</u>		75.64
Inflation Factor (3.60%)				2.72
Cost of Capital				7.75
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.80
Cost Incentive				4.30
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.35)
Minimum Wage Add On				<u>.25</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$88.11</u>

**MCCORMICK HEALTH CARE CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Periods Beginning December 1, 1998  
AC# 3-MHC-F7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
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<u>Costs Not Subject to Standards:</u>				
Utilities		2.42		2.42
Special Services		1.47		1.47
Medical Supplies & Oxy.		5.18		5.18
Taxes and Insurance		.44		.44
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$75.64</u>		75.64
Inflation Factor (3.60%)				2.72
Cost of Capital				7.75
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.80
Cost Incentive				4.30
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.35)
Minimum Wage and CNA Add-ons				<u>1.00</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$88.86</u>

**MCCORMICK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended June 30, 1997  
AC# 3-MHC-F7

<u>Expenses</u>	<u>Totals (From Schedule SC 13) as Adjusted by DH&amp;HS</u>	<u>Adjustments</u> <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,286,256	\$ 5,533 (8) 312 (8)	\$ -	\$1,292,101
Dietary	298,273	689 (8)	1,458 (7)	297,504
Laundry	55,665	226 (8)	-	55,891
Housekeeping	106,498	459 (8)	-	106,957
Maintenance	49,748	176 (8)	-	49,924
Administration & Medical Records	287,040	504 (8)	-	287,544
Utilities	80,068	-	3,585 (6)	76,483
Special Services	61,741	-	1 (9) 15,232 (10)	46,508
Medical Supplies & Oxygen	190,513	-	11,589 (7) 15,190 (9)	163,734
Taxes & Insurance	13,749	-	-	13,749
Legal Fees	-	-	-	-



**MCCORMICK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended June 30, 1997  
AC# 3-MHC-F7

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	298,927	12,149 (1) 65,724 (11)	3,923 (2) 19,990 (3) 900 (4) 19,339 (5)	332,648
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	2,728,478	85,772	91,207	2,723,043
Ancillary	37,829	-	-	37,829
Non-Allowable	406,335	3,923 (2) 900 (4) 19,339 (5) 3,585 (6) 13,047 (7) 15,191 (9) 15,232 (10)	12,149 (1) 7,899 (8) 65,724 (11)	391,780
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$3,172,642</u>	<u>\$156,989</u>	<u>\$176,979</u>	<u>\$3,152,652</u>
Total Patient Days	<u>31,599</u>	<u>-</u>	<u>-</u>	<u>31,599</u>
Cost of Capital Patient Days				<u>42,929</u>
Total Beds	<u>88</u>			

**MCCORMICK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended June 30, 1997  
AC# 3-MHC-F7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 65,189	
	Cost of Capital	12,149	
	Accumulated Depreciation		\$ 43,732
	Fund Balance		21,457
	Nonallowable		12,149
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Fund Balance	44,532	
	Nonallowable	3,923	
	Bond Issuance Cost		44,532
	Cost of Capital		3,923
	To adjust bond issuance cost and related amortization to allowable HIM-15-1, Section 2304		
3	Interest Income	19,990	
	Cost of Capital		19,990
	To properly offset interest income HIM-15-1, Section 202.2 State Plan, Attachment 4.19D		
4	Nonallowable	900	
	Cost of Capital		900
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
5	Nonallowable	19,339	
	Cost of Capital		19,339
	To adjust loan cost amortization and interest income applicable to 32 bed addition to allowable State Plan, Attachment 4.19		

**MCCORMICK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended June 30, 1997  
AC# 3-MHC-F7

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Utilities	3,585	3,585
	To adjust utilities expense to allowable HIM-15-1, Section 2304		
7	Nonallowable Medical Supplies Dietary	13,047	11,589 1,458
	To adjust account balances to allowable HIM-15-1, Section 2304		
8	Nursing Restorative Dietary Laundry Housekeeping Maintenance Administration Nonallowable	5,533 312 689 226 459 176 504	7,899
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
9	Nonallowable Medical Supplies Special Services	15,191	15,190 1
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
10	Nonallowable Special Services	15,232	15,232
	To adjust co-insurance for Medicare Part B services to allowable State Plan, Attachment 4.19D		

**MCCORMICK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended June 30, 1997  
AC# 3-MHC-F7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Cost of Capital Nonallowable	65,724	65,724
	To adjust capital return to allowable State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$286,700</u>	<u>\$286,700</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MCCORMICK HEALTH CARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended June 30, 1997  
AC# 3-MHC-F7

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1814</u>	<u>2.1814</u>	<u>2.1814</u>	
Deemed Asset Value (Per Bed)	34,069	34,069	34,069	
Number of Beds	<u>44</u>	<u>44</u>	<u>32</u>	
Deemed Asset Value	1,499,036	1,499,036	1,090,208	
Improvements Since 1981	6,391	6,391	-	
Accumulated Depreciation at 6/30/97	<u>(364,432)</u>	<u>(344,397)</u>	<u>(39,003)</u>	
Deemed Depreciated Value	1,140,995	1,161,030	1,051,205	
Market Rate of Return	<u>0.067</u>	<u>0.067</u>	<u>0.067</u>	
Total Annual Return	76,447	77,789	70,431	
Return Applicable to Non-Reimbursable Cost Centers	-	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	
Allowable Annual Return	76,447	77,789	70,431	
Depreciation Expense	42,173	42,172	39,003	
Amortization Expense	5,177	5,177	1,814	
Capital Related Income Offsets	(9,995)	(9,995)	(7,545)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	<b><u>Total</u></b>
Allowable Cost of Capital Expense	113,802	115,143	103,703	\$332,648
Total Patient Days (Minimum 97% Occupancy)	<u>15,800</u>	<u>15,799</u>	<u>11,330</u>	<u>42,929</u>
Cost of Capital Per Diem	\$ <u>7.20</u>	\$ <u>7.29</u>	\$ <u>9.15</u>	\$ <u>7.75</u>

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6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 7.79	N/A	N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>11.78</u>	\$ <u>7.29</u>	\$ <u>9.15</u>
Reimbursable Cost of Capital Per Diem		\$7.75	
Cost of Capital Per Diem		<u>7.75</u>	
Cost of Capital Per Diem Limitation		\$ <u>-</u>	